

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

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R 171042Z AUG 76

FM AMEMBASSY THE HAGUE

TO SECSTATE WASHDC 8772

INFO EC COLLECTIVE 40

AMEMBASSY STOCKHOLM

AMEMBASSY VIENNA

C O N F I D E N T I A L THE HAGUE 4464

E.O. 11652: GDS

TAGS: EFIN

SUBJ: DUTCH DEFEND THE GUILDER

1. THE DUTCH GOVERNMENT HAS MOVED TO STRENGTHEN THE GUILDER ON FOREIGN EXCHANGE MARKETS FOLLOWING WARNINGS FROM A MAJOR BANK THAT THE NETHERLANDS HIGH INFLATION RATE WOULD SOON FORCE A DEVALUATION OF THE GUILDER.

2. A SPOKESMAN FOR THE EXECUTIVE BOARD OF AMRO BANK WARNED AUGUST 12 THAT THE SNAKE COULD NOT BE MAINTAINED LONG IN THE FACE OF A 9 PERCENT INFLATION RATE IN THE NETHERLANDS WHILE GERMANY'S INFLATION IS ONLY 5 PERCENT. AMRO NOTED THAT THE NETHERLANDS BANK HAS INTERVENED HEAVILY IN FOREIGN EXCHANGE MARKETS IN RECENT MONTHS AND SAID THAT A WAVE OF SPECULATION COULD FORCE DEVALUATION AT ANY TIME. THE FINANCE MINISTRY IMMEDIATELY STRONGLY RULED OUT THE POSSIBILITY OF A DEVALUATION.

3. AUGUST 13 THE NETHERLANDS BANK SOLD AN ESTIMATED 200 MILLION D-MARKS IN DEFENSE OF THE GUILDER A FULL ONE PERCENTAGE

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POINT INCREASE IN THE NETHERLANDS BANK'S BANK RATE TO 6.5

PERCENT, FOLLOWING A 0.5 PERCENT INCREASE ON AUGUST 2, HAD LITTLE EFFECT ON THE FOREIGN EXCHANGE MARKET, WHICH HAD ALREADY DISCOUNTED THE INCREASE. THE BANKS SWAPS OF CURRENT DOLLARS FOR ONE-MONTH FORWARD DOLLARS TOTALING \$147 MILLION FOR THE WEEK ALSO FAILED TO HAVE A SIGNIFICANT EFFECT ON THE GUILDER.

4. COMMENT: DESPITE THEIR PUBLIC SUPPORT, MINISTRY OF FINANCE OFFICIALS HAVE BECOME MORE AND MORE DISENCHANTED WITH THE SNAKE. THERE IS A STRONG FEELING THAT THE STRAIN OF MAINTAINING THE SNAKE LINKAGE WITH THE D-MARK IS UNDERMINING THE ALREADY LAGGING DUTCH ECONOMIC RECOVERY BY PRICING DUTCH EXPORTERS OUT OF THE MARKET AND KEEPING INTEREST RATES HIGH. THESE FACTORS HAVE BEEN THE MAIN MOTIVATING FORCES BEHIND DUTCH EFFORTS TO INTRODUCE GUIDELINES FOR FLOATING WHICH COULD SUBSTITUTE FOR THE SNAKE. SENIOR FINANCIAL OFFICIALS (INCLUDING TREASURER GENERAL OORT) ARE STRONG ADVOCATES OF FLOATING. NEVERTHELESS, IN DISCUSSIONS WITH THE EMBASSY THEY HAVE INDICATED A PREFERENCE FOR ADJUSTING THE D-MARK BY REVALUATION OR FLOATING RATHER THAN THE OTHER SNAKE CURRENCIES. SUCH AN ACTION HAS BEEN EXPECTED TO FOLLOW THE GERMAN ELECTIONS. THE CURRENT STRAINS ON THE SNAKE WILL PROBABLY LEAD TO INCREASED DUTCH PRESSURE ON GERMANY FOR A REVALUATION, PROBABLY IN COORDINATION WITH OTHER SNAKE COUNTRIES.
BROWN

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